

CONFORMED COPY

LOAN NUMBER 3640 BY

Loan Agreement

(Institution Building Project)

between

REPUBLIC OF BELARUS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 13, 1993

LOAN NUMBER 3640 BY

LOAN AGREEMENT

AGREEMENT, dated August 13, 1993, between REPUBLIC OF BELARUS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) to assist the financing of the Project, the Borrower intends to obtain grants and technical assistance from various donors in amounts equivalent to seven million five hundred eighty eight thousand dollars (\$7,588,000) on the terms and conditions set forth in agreements to be entered into between the Borrower and every of the donors;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "PMU" means the Project Management Unit established by the Borrower to coordinate and oversee all the activities of the Project.

(b) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eight million three hundred thousand dollars (\$8,300,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Bank shall review the final drafts of the proposed privatization implementation framework and anti-monopoly regulations and discuss them with the Borrower before final enactment.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that:

(a) subject to paragraph (b) of this Section:

(i) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Termination; Effective Date

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that three key staff of the PMU referred to in Section 1.02 (a) of Article I of this Agreement, the Procurement, Disbursement, and Accounting Officers, with experience and qualifications acceptable to the Bank have been appointed.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The First Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
House of the Government
Minsk, Belarus

Telex:

252 125 GKVES

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF BELARUS

By /s/ Vladimir I. Gontcharenok
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Siegelbaum
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

| Category | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expenditures to be Financed |
|---|--|---|
| (1) Consultants' services, fellowships and training | 4,850,000 | 100% of foreign expenditures |
| (2) Computers, equipment and other materials | 2,880,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |

| | |
|-----------------|-----------|
| (3) Unallocated | 570,000 |
| TOTAL | 8,300,000 |

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$800,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after July 1, 1993.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Republic of Belarus to strengthen the institutional basis for economic reform through institution building projects in four functional areas: (a) resource mobilization and economic management, (b) enterprise reform, (c) banking sector reform, and (d) social sector reform.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Resource Mobilization and Economic Management

(1) Tax administration: Development and improvement of tax administration and collection, through provision of equipment to extend the computerization of the State Tax Inspectorate and the six oblasts in Belarus.

(2) Treasury: Provision of equipment and technical assistance for the phased installation of a treasury system centered within the Ministry of Finance and expansion of its function at the oblast level.

(3) Aid management: Equipment and technical assistance to build government capacity to utilize external finance and aid flows, and ensure efficient allocation of aid resources.

Part B: Enterprise Reform

(1) Assistance to the Committee for the Management of State Property (GKI) for:

(a) the completion of the necessary legal and regulatory framework to implement the Privatization law once enacted;

(b) the training and equipment of the staff of GKI and officials implementing the reform program;

(c) the preparation of detailed operating methodologies for a multi-track privatization program including mass privatization;

(d) the initiation of the privatization of medium and large enterprises at the national level;

(e) the initiation of small scale enterprise auctions in four selected cities;

(f) the creation of investment funds and securities trading; and

(g) the development of public awareness campaign for privatization through the mass media.

(2) Assistance to the Anti-Monopoly Committee (AMC) for:

(a) the completion of the necessary changes to the legal framework to implement the Anti-monopoly law once enacted;

(b) the preparation of operating guidelines for the AMC;

(c) the initiation of the break-up of selected monopoly enterprises;

(d) the training and equipment of the staff of the AMC; and

(e) conducting training programs for the Borrower's officials at national, regional and municipal levels.

(3) Private Sector Development:

(a) Development of measures to promote private sector including the simplification of registration and licensing procedures; and

(b) supporting the creation and equipping of office parks which can work as incubators for small businesses.

Part C: Banking Sector Reform

(1) Introduction of new "Chart of Accounts" and Broadly Adapted Financial Statements.

(2) Conducting a diagnostic study and provide equipment to restructure the operations of the Sberbank and provide twinning arrangements with European savings institutions.

(3) Conducting a diagnostic study and provide equipment and twinning arrangements to strengthen operations of at least one commercial bank.

(4) Conducting training programs for managers, accountants, auditors, National Bank supervisors, and commercial bankers.

Part D: Social Sector Reform

(1) Provision of expert assistance to: (i) review alternative methods for identifying the most vulnerable groups; (ii) assess the quality of existing data sources and recommend modifications; (iii) monitor poverty and improve organizational structure, administrative procedures, and effective delivery methods; and (iv) assist in the preparation of legislation and implementation norms for social assistance programs which focus social assistance on the highest priority groups consistently with sound fiscal management.

(2) Provision of expert assistance and training for the preparation of a pension reform plan, redesigning procedures and modernizing the pension administration.

(3) Review of labor laws and recommendation of modifications.

(4) Computerization of labor/social protection offices to improve labor market monitoring and unemployment services, and delivery of social benefits.

* * *

The Project is expected to be completed by August 30, 1996.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|------------------|---|
|------------------|---|

On each February 15 and August 15

| | |
|--|---------|
| beginning February 15, 1999 through February 15, 2008 | 415,000 |
| and on August 15, 2008 | 415,000 |

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

